

June 23, 2010

Mr. Jed Ziegenhagen
Rates Section Manager
Department of Health Care Policy and Financing

**RE: JANUARY 1, 2010 - DECEMBER 31, 2010 CAPITATION RATE CERTIFICATION
ADDENDUM FOR THE EFFECTIVE RATE PERIOD OF JULY 1, 2010 – DECEMBER 31, 2010**

Dear Jed:

The State of Colorado Department of Health Care Policy and Financing (Department) has developed Medicaid managed care capitation rates for Calendar Year 2010 (CY10), or the period January 1, 2010 through December 31, 2010. The Department contracted with Wakely Consulting Group (Wakely) to review the proposed capitation rates and their development, and to certify that they are actuarially sound for the purpose of seeking rate approval by the Centers for Medicare and Medicaid Services (CMS) under 42 CFR 438.6(c). Certification of these capitation rates by Wakely also fulfills all applicable state statutes.

Wakely has certified that the Medicaid managed care capitation rates for CY10 are actuarially sound. This letter is an addendum to our original certification document dated January 22, 2010 and is being provided to certify that the public policy adjustments applied to capitation rates effective July 1, 2010 through December 31, 2010 are actuarially sound for purposes of seeking rate approval by CMS.

PUBLIC POLICY CHANGES EFFECTIVE JULY 1, 2010

Policy change adjustments have been made to account for budget actions through statutory changes by the General Assembly of the State of Colorado. Historically, these changes in expenditures were due to rate, benefit, or eligibility changes. The factors used to adjust the rates were calculated by the Department and represented changes in the price and copayments of the services as described.

Exhibit A contains the applicable public policy adjustments that have been incorporated in the capitation rate development. The adjustments noted to be effective through December 1, 2009 were incorporated in the original rate analysis that was summarized in the January 22, 2010 document supplied by Wakely. This addendum addresses the changes to the Medicaid managed care capitation rates effective July 1, 2010 through December 31, 2010 based on the public policy changes noted as "FY11" in Exhibit A.

RATE CERTIFICATION

Based on data and information supplied by the Department and participating MCOs, Wakely certifies that the CY10 Medicaid managed care capitation rates are in accordance with Colorado statute. In addition, Wakely developed Medicaid managed care rate ranges for CY10 in accordance with the CMS Rate Checklist. Exhibit B contains the final metro rate ranges for Denver Health according to the CMS

June 23, 2010

Page 2

Rate Checklist before and after the July 1, 2010 policy adjustments, the actual capitation rates before and after the FY11 policy adjustments have been applied, the change in rates effective July 2010, and the associated case mix as of June 2009 by rate cell. For each rate cell, the actual capitation rate is greater than the low end of the actuarially sound rate range and is below the high end of the rate range.

The case mix presented in Exhibit B reflects the membership distribution in June 2009 by rate cell; June 2009 membership was the basis of the best estimate of projected membership distribution during CY10. However, case mix may vary, perhaps materially, from this estimation.

Wakely developed rate ranges based on data supplied by the Department and the participating MCOs. Wakely has not audited the data, and changes to the data could affect the resulting rates, perhaps even materially. Further, use of these rate ranges for purposes beyond those required by CMS and Colorado Revised Statute may not be appropriate.

Wakely certifies that the rate ranges displayed in Exhibit B were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract. Rate ranges presented are actuarial projections of future contingent events. Actual MCO costs will differ from these projections.

Wakely has developed these rate ranges on behalf of the State of Colorado to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and certifies that they are in accordance with Colorado Revised Statute (C.R.S.) Section 25.5-5-408 and other applicable laws and regulations. MCOs are advised that the use of these rates and/or rate ranges may not be appropriate for their particular circumstance, and Wakely disclaims any responsibility for the use of these rate ranges by MCOs for any purpose. Wakely recommends that any MCO considering contracting with the State of Colorado should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rate ranges before deciding whether to contract with the State. Use of these rate ranges for any purpose beyond that stated may not be appropriate. Furthermore, as outlined in C.R.S. Section 25.5-5-404, each MCO must certify the following: first, per C.R.S. Section 25.5-5-404(k) "the MCO shall certify...that the capitation payments set forth in the contract...are sufficient to assure the financial stability of the MCO;" second, per C.R.S. Section 25.5-5-404(l) "the MCO shall certify, through a qualified actuary retained by the MCO, that the capitation payments set forth in the contract...comply with all applicable federal and state requirements."

Exhibit C contains the formal actuarial certification. If you have any questions regarding this letter, please contact us.

Sincerely,



Mary K. Hegemann, FSA, MAAA
Senior Consulting Actuary


Electronic Signature

Ross Winkelman, FSA, MAAA
Senior Consulting Actuary

Exhibit A

Public Policy Adjustments									
Category of Service	FY06 - Effective Apr 1 2006	FY07	FY07 - Effective Apr 1 2007	FY08	FY09	FY10	FY10 - Effective Sep 1 2009	FY10 - Effective Dec 1 2009	FY11 – Effective Jul 1 2010
DME	2.00%	3.25%	0.00%	0.83%	0.71%	-2.00%	-1.50%	-1.00%	-1.69%
Prescription Drugs	0.00%	0.00%	0.00%	0.00%	-0.70%	-1.04%	-3.79%	-0.00%	-1.11% *
Emergency Transport	0.00%	0.00%	0.00%	7.58%	0.00%	-2.00%	-1.50%	-1.00%	-1.00%
EPSDT	0.00%	3.25%	0.00%	0.00%	0.00%	-2.00%	-1.50%	-1.00%	-1.00%
Family Planning	0.00%	0.00%	0.00%	17.84%	0.00%	0.00%	0.00%	0.00%	0.00%
FQHC & Rural Health	0.00%	3.25%	0.00%	3.78%	7.20%	-4.54%	-1.50%	-1.00%	-1.00%
FQHC (Children)	0.00%	3.25%	0.00%	3.78%	11.72%	-4.54%	-1.50%	-1.00%	-1.00%
Home Health	10.28%	0.00%	7.00%	0.00%	1.50%	-2.34%	-1.50%	-1.00%	-1.00%
Inpatient Hospital	1.00%	3.25%	0.00%	1.46%	1.50%	-2.39%	-1.50%	-1.00%	-1.00%
Laboratory and X-ray	0.00%	3.25%	0.00%	0.00%	10.37%	-2.00%	-1.50%	-1.00%	-1.00%
Outpatient Hospital	0.00%	0.00%	0.00%	0.93%	0.00%	-2.00%	-1.50%	-1.01%	-1.00%
Physician	0.00%	3.25%	0.00%	3.78%	7.20%	-4.54%	-1.50%	-1.00%	-1.00%
Physician (Children)	0.00%	3.25%	0.00%	3.78%	11.72%	-4.54%	-1.50%	-1.00%	-1.00%

- The “FY11” prescription drug changes were effective April 1, 2010. Anticipated rebates associated with expansion of the Preferred Drug List (PDL) have been excluded from the prescription drug policy adjustment noted here.
- The FY11 policy adjustments for all categories of service other than prescription drugs represent reductions in provider payment schedules which will be effective July 1, 2010.

Exhibit B

Calendar Year 2010 PMPM Capitation Rates for Denver Health Metro								
	Prior to July Public Policy Changes			Adjusted for July Public Policy Changes				
Rate Cell	Low End	High End	Current Rates (Jan - Jun 2010)	Low End	High End	New Rates (Jul - Dec 2010)	Change	Case Mix June 2009
AFDC-A Females	\$224.62	\$260.65	\$239.28	\$222.40	\$258.07	\$236.92	-1.0%	12.0%
AFDC-A Males	\$193.77	\$225.99	\$205.49	\$191.84	\$223.74	\$203.44	-1.0%	2.7%
BCKC Adults	\$269.25	\$305.53	\$293.40	\$266.55	\$302.47	\$290.46	-1.0%	0.7%
Child-C	\$72.09	\$82.86	\$72.10	\$71.37	\$82.03	\$71.38	-1.0%	56.7%
Child-U	\$223.18	\$251.09	\$225.50	\$220.94	\$248.57	\$223.24	-1.0%	7.4%
Foster Children	\$212.94	\$261.77	\$213.75	\$210.75	\$259.07	\$211.55	-1.0%	0.7%
OAP-A Non-Institutional	\$171.46	\$196.67	\$187.95	\$169.56	\$194.50	\$185.87	-1.1%	6.3%
OAP-A Institutional	\$75.42	\$87.74	\$80.20	\$74.66	\$86.86	\$79.39	-1.0%	0.4%
OAP-B/AND Non-Institutional, Non-TPL	\$716.72	\$845.71	\$756.32	\$709.13	\$836.76	\$748.32	-1.1%	9.9%
OAP-B/AND Non-Institutional, TPL	\$160.03	\$183.74	\$177.27	\$158.14	\$181.57	\$175.18	-1.2%	3.0%
OAP-B/AND Institutional, Non-TPL	\$1,593.61	\$1,927.65	\$1,623.95	\$1,578.06	\$1,908.84	\$1,608.10	-1.0%	0.2%
OAP-B/AND Institutional, TPL	\$121.69	\$142.06	\$129.42	\$120.43	\$140.59	\$128.08	-1.0%	0.1%
TOTAL (other than Delivery)	\$182.23	\$211.81	\$190.21	\$180.35	\$209.62	\$188.24	-1.0%	100.0%
Maternity Delivery	\$4,741.04	\$5,089.29	\$4,789.92	\$4,693.63	\$5,038.40	\$4,742.02	-1.0%	

Exhibit C

Actuarial Certification Colorado Medicaid Managed Care Capitated Contract Rates Effective January 1, 2010 through December 31, 2010

I, Mary K. Hegemann, am associated with the firm of Wakely Consulting Group, Inc. (Wakely), am a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries, and meet its Qualification Standards for Statements of Actuarial Opinion.

I, Ross A. Winkelman, am associated with the firm of Wakely Consulting Group, Inc. (Wakely), am a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries, and meet its Qualification Standards for Statements of Actuarial Opinion.

Wakely was retained by the State of Colorado's Department of Health Care Policy and Financing for the development of the actuarially sound rate ranges for capitated contracts for managed care organizations participating in the Colorado Medicaid program. We are generally familiar with the Colorado Medicaid program, eligibility rules, and benefit provisions.

The capitation rates provided with this certification are considered actuarially sound for purposes of 42 CFR 438.6(c), according to the following criteria:

- the capitation rates have been developed in accordance with generally accepted actuarial principles and practices;
- the capitation rates are appropriate for the Medicaid populations to be covered, and Medicaid services to be furnished under the contract; and
- the capitation rates meet the requirements of 42 CFR 438.6(c).

The assumptions used in the development of the actuarially sound capitation rates have been documented with the Colorado Department of Health Care Policy and Financing in the remainder of this document and in the original rate certification document dated January 22, 2010. The actuarially sound rate ranges that are associated with this certification have been established for the effective period January 1, 2010 through December 31, 2010.

The actuarially sound capitation rate ranges are based on a projection of future events. It may be expected that actual experience will vary from the experience assumed in the rate ranges.

In developing the actuarially sound capitation rate ranges, we have relied upon data and information provided by the State and the participating carriers. We did not audit the data provided; however, we did review the data for reasonableness and consistency.

To the best of our information, knowledge and belief, the rate development methodology used to establish the capitation rate ranges for CY2010 is in compliance with 42 CFR 438.6(c). In our opinion, the rate development methodology is actuarially sound, was developed in accordance with generally accepted actuarial principles and practices, and is appropriate for the populations to be covered and the services to be furnished under the contract. Actuarial methods, considerations, and analyses used in forming our opinion conform to the appropriate Standards of Practice as promulgated from time-to-time by the Actuarial Standards Board, whose standards form the basis of this Statement of Opinion.

Exhibit C

It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs will be dependent on each contracted managed care organization's situation and experience. The health plan should evaluate the rates in the context of its own experience, expenses, capital and surplus, and profit requirements. The health plan may require rates above, within, or below the actuarially sound capitation rate ranges that are associated with this certification.



Mary K. Hegemann, FSA, MAAA

June 23, 2010



Ross A. Winkelman, FSA, MAAA

June 23, 2010
